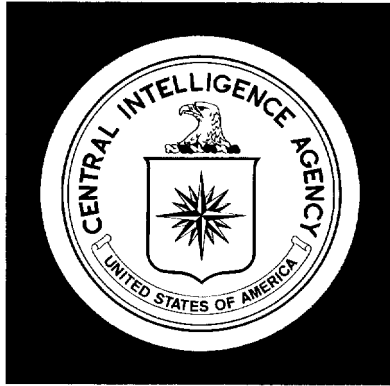


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ISRAEL-LEBANON: Israeli aircraft attacked Palestinian refugee camps in Lebanon twice yesterday in reprisal for the terrorist incident at Maalot. Tel Aviv denied the attacks were against civilian targets, asserting that they were "purely military operations" conducted against guerrilla concentrations and training camps.

Lebanese officials announced that at least seven refugee camps were attacked, including one at Ayn Al Hulwah near Sidon--the largest Palestinian camp in Lebanon. Press reports from Beirut claim that the main hospital at this camp was hit. Initial casualty reports from Lebanon indicate that over 50 people were killed in the attacks and perhaps 250 wounded. A large number of Lebanese reportedly were among the casualties.

It is not yet clear whether the air raids represent a deliberate change in the past Israeli practice of hitting military targets and avoiding, insofar as possible, civilian installations. Tel Aviv is claiming that the attacks were against "terrorist positions" in southeast Lebanon from which Arab guerrillas operate.

The methods and announced objectives of the Israeli air strikes resemble the post-Munich Israeli reprisals in September 1972. At that time, fedayeen installations, including those in the immediate vicinity of refugee camps, in Syria and Lebanon were hit. Foreign Minister Eban said at that time that Israel would "take all necessary measures to strike at the perpetrators of the murders" and would "fight the terrorists wherever we find them." This is still the Israeli position.

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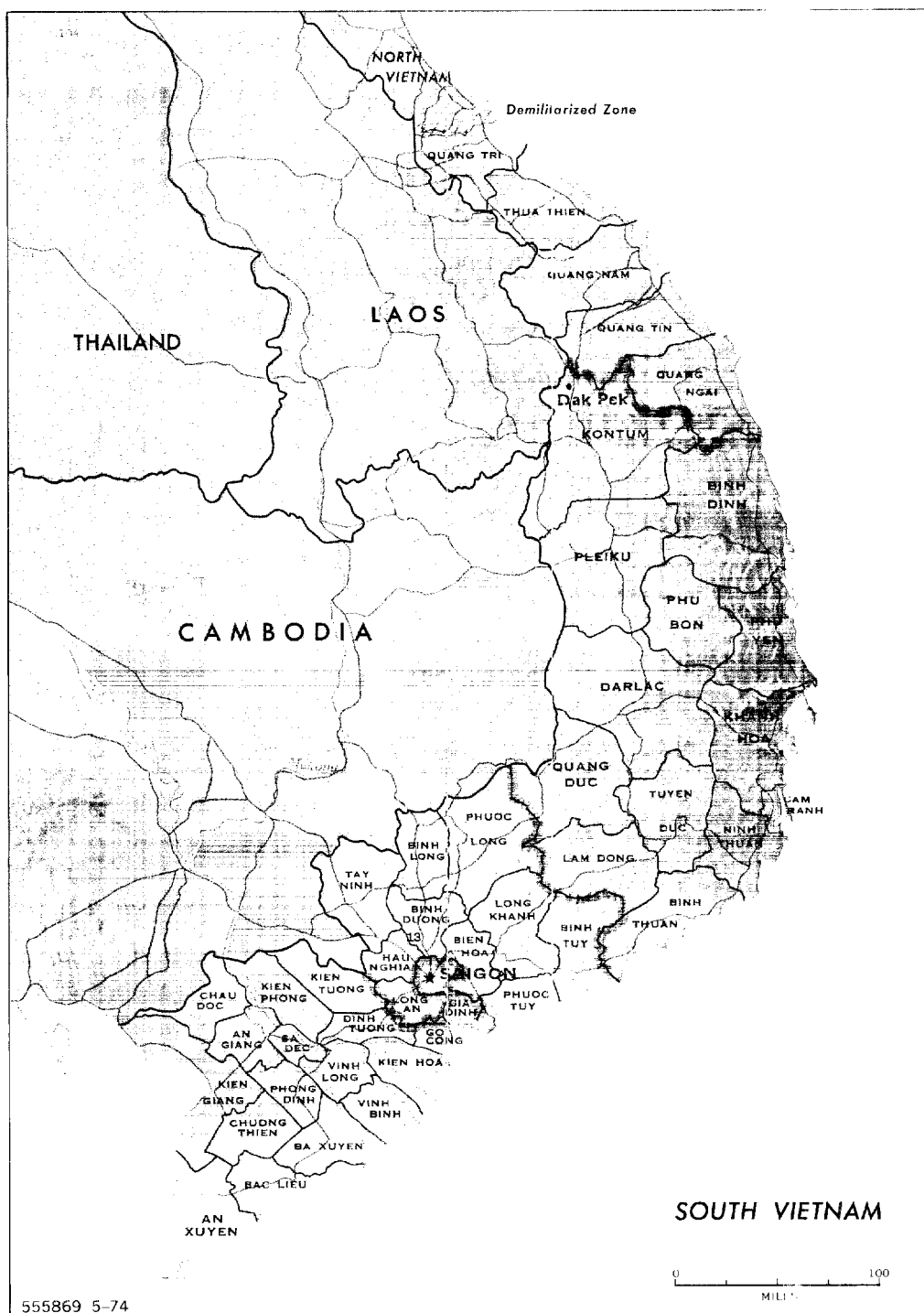
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SOUTH VIETNAM: The Communists have launched new attacks in widespread areas of South Vietnam. In addition to capturing the South Vietnamese Ranger outpost and town of Dak Pek in northwestern Kontum Province yesterday, the Communists forced the government to abandon several outposts and villages in Binh Duong Province north of Saigon.

So far, the bulk of the action has been directed against government positions near Route 13 and along the Saigon River corridor. Some of the fighting appears heavy and tanks reportedly have been observed in at least one of the attacks. Government commanders report that units from at least two of the Communists' main force divisions in the region--the 7th and 9th--have been involved, suggesting to them that the North Vietnamese are planning to wage a fairly intensive local campaign.

Documents captured and defectors taken during the new fighting north of Saigon have labeled that effort as the "Nguyen Hue 3" campaign. They indicate that the campaign in this sector is to be of short duration and targeted primarily against South Vietnamese bases and outposts in northern MR 3.

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USSR-EGYPT: The suspension of Soviet arms shipments apparently has not been accompanied by any major reduction in Soviet economic programs in Egypt. Nevertheless, both sides remain cautious in assuming new undertakings.

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The USSR, on the other hand, appears to be honoring existing economic aid commitments. Soviet shipments of commercial cargo continue at a normal level. About 1,500 Soviet technicians remain at work in Egypt. Moreover, an Egyptian economic delegation went to Moscow last month to discuss the expansion of the Hulwan iron and steel complex and the Naja Hamadi aluminum plant, two major ongoing Soviet aid projects. A contract to enlarge the capacity of the Soviet-built Alexandria shipyard is also under negotiation. Terms still must be ironed out because Cairo has objected to the price of some items. Some 35 small tankers and cargo ships are to be built for the USSR in repayment for aid to the shipyard. Soviet engineers and technical personnel are directing repair work at the facility on Soviet merchant marine and naval ships. Moscow also continues to be involved in Egypt's fishing industry, as well as in irrigation, rural electrification, and other projects.

The Soviets initially were interested in playing a significant role in clearing the Suez Canal and in rehabilitating war-damaged industries in the canal area. Moscow, however, was stung by the Egyptian decision to turn to the US and the UK for aid in canal clearance, and the USSR apparently has offered only small amounts of assistance for rehabilitation projects.

Although Moscow apparently intends to continue existing economic programs as a means of maintaining a modest presence during a period of marked chill in

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political relations, the Soviets have privately taken the line that Moscow will keep a tight rein on any new economic and military assistance. The USSR, in fact, has not extended any new economic aid to Egypt since early 1971, when it provided some \$195 million in credits. Its position as Egypt's principal source of economic aid ended after the 1967 war when the Arab states agreed to underwrite the Egyptian economy with \$250 million annually in grants. Egypt has used about 70 percent of the nearly \$1.2 billion in credits extended by the USSR since 1957.

Although President Sadat, as part of his policy of "positive neutrality" in relations with the US and the USSR, clearly intends to reduce Egypt's dependence on Soviet economic assistance, he has not extended his public attacks on Moscow's military assistance policy to include Soviet economic programs.

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WEST GERMANY: The election yesterday of Helmut Schmidt as West German Chancellor brought ten days of intense political activity in Bonn to a close on a more optimistic note than many had believed possible last week.

Although Schmidt will not officially announce his cabinet until he takes the oath of office later today, most of the details of the past week's tough cabinet negotiations with the coalition Free Democrats are already widely known. Aside from dropping some of the less effective Social Democratic ministers, Schmidt has brought several former close associates into positions of authority, either as cabinet ministers or as state secretaries. Even more important for the future of his government, Schmidt's inclusion of the new Free Democratic Party leader, Hans-Dietrich Genscher, as vice chancellor and foreign minister, reflects agreement among leading Social Democrats to swallow their resentment of Genscher's role in the Guillaume affair in the interests of coalition cooperation.

Anticipating his major policy speech today, Schmidt has already stressed his intention to continue the coalition program adopted in 1972. Despite this pledge, Schmidt may introduce changes of emphasis as well as a marked change in style of leadership. Although he lacks the personal warmth and the aura of international statesman imparted by his predecessor, Schmidt will provide greater capacity for decision, firmer control, and more hard-headed pragmatism.

Schmidt will undoubtedly give first priority to domestic problems. Like other Social Democrats, he had long been impatient with Brandt for not having provided more decisive and forceful leadership in restoring public confidence in the party's ability to govern. With only three weeks remaining before the first of two major state elections this year, Schmidt's first aim will be to halt the steady erosion of public support for the party by allaying public concern over signs of economic and political instability.

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Now that the shock of Brandt's departure from the government has begun to wear off, leading Social Democrats are becoming more optimistic about the change of leadership. They feel that undiminished public sympathy for Brandt, together with the more effective government leadership that Schmidt may provide, could result in decided advantages for the party. What is more, conservative Christian Democrats are beginning to fear that Schmidt could prove a more formidable opponent than Brandt.

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*PORTUGAL: The junta has made it clear that the military will be the ultimate authority in Portugal during the life of the provisional government.

A constitutional decree issued on May 15 makes the armed forces completely independent of the provisional government and the chief of staff of the armed forces equal in status to the prime minister.

Prior to the swearing in of the provisional government yesterday, the junta released a statement of basic principles and guidelines that are to govern the provisional government's future decisions. In effect, the government has been given the authority to overhaul virtually every aspect of Portuguese society within carefully defined limitations. The new government was also encouraged to allow debate on fundamental problems, but not to tolerate extremists of any stripe.

The foreign policy section of the guidelines reaffirms Portugal's traditional friendship with the US and calls for an intensification of relations with countries in the European Community. Relations with the Arab world are to be renewed, and a call to establish relations with all countries suggests that Lisbon will seek ties with Communist Europe.

The government is directed to institute measures whereby the inhabitants of the overseas provinces can decide their own fate. In the interim, defensive operations will be continued to protect the life and property of all citizens in those areas.

Progress in all the areas outlined by the junta will require strong leadership, a significant amount of financing, and considerable restraint on the part of the long-deprived Portuguese lower classes.

On its first day in office the provisional government was faced with widespread labor disputes. The 200,000-member textile union, for example, voted to begin a strike today for wage increases which ran from 40 to 70 percent. [REDACTED]

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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MEXICO: President Echeverria has successfully beaten back a challenge to his control in the eastern state of Veracruz.

As in the case of similar challenges in the states of Nuevo Leon and Sonora in late 1972, Echeverria personally intervened last month to quash a plan by the conservative wing of the Institutional Revolutionary Party (PRI) to secure the state governorship for itself. The conservatives' tactic was simply to announce their candidate for the state election this July without receiving the official party blessing. In effect, this means announcing who shall be governor, since the PRI always wins. The conservatives apparently were hoping that Echeverria and his advisers would give in rather than divide the "revolutionary family," and possibly cause a damaging public debate. But in order to defend his policy of social and economic reform, Echeverria has shown a willingness to risk party discord on key occasions rather than allow conservative opponents to assume important posts like state governorships.

Acceptance of the right-wing candidate would have alienated the working class and student groups in Veracruz--the very people Echeverria has been working to win over for the past three-and-a-half years. Echeverria may also have been thinking ahead to 1976 when his successor will take over. His reformist policies have greatly alarmed the private sector and its conservative allies within his party, and they will seek to ensure a successor to Echeverria who will swing the pendulum back to the right. Echeverria will want his successor to carry on his policies. To this end, he is lining up support among key state governors. [REDACTED]

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CHINA-PAKISTAN: The visit of Prime Minister Bhutto to Peking this week is likely to mark the beginning of a more active Chinese policy on the Indian subcontinent.

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Chinese statements strongly implied that Peking is prepared to improve its own relations on the subcontinent, particularly with Bangladesh. Vice Premier Teng Hsiao-ping praised the agreements on the withdrawal of forces from occupied territories and on prisoner repatriation, which have satisfied Peking's long-standing conditions for warmer relations. A Peoples Daily editorial underscored China's interest in closer ties with Dacca by pointing out that a pattern of normal relations on the subcontinent worked to Moscow's disadvantage. With no major obstacles remaining, early Chinese recognition of Bangladesh appears likely.

The restoration of normal Sino-Indian ties is a more complicated matter. Both Bhutto and the Chinese treated India gingerly during the visit and refrained from attacking New Delhi for past subcontinental turmoil. Such restraint was more than offset, however, by explicit Chinese endorsement of Kashmiri self-determination, which was both offensive to India and prejudicial to improved Peking-Delhi relations. Such Chinese statements reinforce Indian arguments--reportedly advanced by Mrs. Gandhi--that India's close ties with the USSR are due in part to continued Pakistani claims, backed by China, to Kashmir. India's

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relationship with the USSR particularly troubles Peking, and the Chinese may hope that New Delhi will eventually make some gesture suggesting its ties with Moscow have been loosened.

The final communiqué and speeches by both sides made clear that the special China-Pakistan relationship would endure even as a new pattern of relationships in the area develops. The Pakistani press reported that Bhutto discussed ways of utilizing a \$100-million commodity assistance loan pledged by China; the composition of the delegations suggests that the two sides also discussed military cooperation. By stressing that Pakistan can now stand on its own feet as a result of past Chinese support, however, a Peoples Daily editorial appeared to signal that increased Chinese attention to its own interests and less to Pakistan's might develop over time and that this should result in looser ties.

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JAPAN: A marked slowdown in the growth of Japan's purchases of raw materials could cause downward pressure on international commodity prices during the next several months.

The volume of Japan's raw material imports in January and February rose only 1 percent compared with the same period last year; demand will remain sluggish for at least the next several months. Such imports swelled by 20 percent last year and were a major factor in the upward pressure on world commodity prices.

Last year, Japan accounted for roughly half the increase in world copper consumption and a substantial part of the rise in demand for steel scrap, iron ore, bauxite, rubber, and other industrial materials. Underlying this demand was a 17-percent increase in Japanese industrial production.

With industrial output falling in recent months, Japanese demand for certain products supplied largely by the US--e.g., steel scrap, wood products, and hides and skins--has fallen sharply. Japan's purchases of US materials in January and February were still 10-percent higher than for these months in 1973, largely because imports of US coal and corn were up 67 and 30 percent, respectively.

Higher prices have raised Japan's raw material import bill markedly, even though volume has increased little. Oil imports are running at about the early 1973 level of 5.3 million barrels per day, but prices of crude oil have quadrupled. Prices of copper, rubber, tin, and scrap have doubled since early last year.

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